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GOVERNOR



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COMMISSIONER

**STATE OF HAWAII  
PUBLIC UTILITIES COMMISSION  
DEPARTMENT OF BUDGET AND FINANCE**

465 S. KING STREET, #103  
HONOLULU, HAWAII 96813

Telephone: (808) 586-2020  
Facsimile: (808) 586-2066

e-mail: [Hawaii.PUC@hawaii.gov](mailto:Hawaii.PUC@hawaii.gov)

March 5, 2009

To: Service List

Re: Docket No. 2008-0274; Proceeding to Investigate Implementing a Decoupling Mechanism for Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc., and Maui Electric Company, Limited

Enclosed please find information requests ("IRs") prepared by the Commission's consultant, the National Regulatory Research Institute, for the above-referenced docket. The parties are directed to respond to the IRs within twenty-one days of the date of this letter.

Please contact the undersigned if you have any questions.

Sincerely,

Kaiulani Kidani Shinsato  
Commission Counsel

KKS:laa

Enclosure

SERVICE LIST

CATHERINE P. AWAKUNI  
EXECUTIVE DIRECTOR  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS  
DIVISION OF CONSUMER ADVOCACY  
P. O. Box 541  
Honolulu, HI 96809

DARCY L. ENDO-OMOTO  
VICE PRESIDENT  
GOVERNMENT & COMMUNITY AFFAIRS  
HAWAIIAN ELECTRIC COMPANY, INC.  
P.O. Box 2750  
Honolulu, HI 96840-0001

DEAN MATSUURA  
MANAGER, REGULATORY AFFAIRS  
HAWAIIAN ELECTRIC COMPANY, INC.  
P.O. Box 2750  
Honolulu, HI 96840-0001

JAY IGNACIO  
PRESIDENT  
HAWAII ELECTRIC LIGHT COMPANY, INC.  
P.O. Box 1027  
Hilo, HI 96721-1027

EDWARD L. REINHARDT  
PRESIDENT  
MAUI ELECTRIC COMPANY, LIMITED  
P.O. Box 398  
Kahului, HI 96733-6898

THOMAS W. WILLIAMS, JR., ESQ.  
PETER Y. KIKUTA, ESQ.  
GOODSILL ANDERSON QUINN & STIFEL LLLC  
1099 Alakea Street, Suite 1800  
Honolulu, HI 96813

RANDALL J. HEE, P.E.  
PRESIDENT AND CEO  
KAUAI ISLAND UTILITY COOPERATIVE  
4463 Pahe'e Street, Suite 1  
Lihue, HI 96766-2000

TIMOTHY BLUME  
MICHAEL YAMANE  
KAUAI ISLAND UTILITY COOPERATIVE  
4463 Pahe'e Street, Suite 1  
Lihue, HI 96766-2000

KENT D. MORIHARA, ESQ.  
KRIS N. NAKAGAWA, ESQ.  
RHONDA L. CHING, ESQ.  
MORIHARA LAU & FONG LLP  
841 Bishop Street, Suite 400  
Honolulu, HI 96813

WARREN S. BOLLMEIER II  
PRESIDENT  
HAWAII RENEWABLE ENERGY ALLIANCE  
46-040 Konane Place 3816  
Kaneohe, HI 96744

CARL FREEDMAN  
HAIKU DESIGN & ANALYSIS  
4234 Hana Hwy.  
Haiku, HI 96708

GERALD A. SUMIDA, ESQ.  
TIM LUI-KWAN, ESQ.  
NATHAN C. SMITH, ESQ.  
CARLSMITH BALL LLP  
ASB Tower, Suite 2200  
1001 Bishop Street  
Honolulu, HI 96813

MIKE GRESHAM  
HAWAII HOLDINGS, LLC, dba FIRST WIND HAWAII  
33 Lono Avenue, Suite 380  
Kahului, HI 96732

DEBORAH DAY EMERSON, ESQ.  
GREGG J. KINKLEY  
DEPUTY ATTORNEYS GENERAL  
DEPARTMENT OF THE ATTORNEY GENERAL STATE OF HAWAII  
425 Queen Street  
Honolulu, HI 96813

THEODORE PECK  
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT, AND TOURISM  
State Office Tower  
235 South Beretania Street, Room 501  
Honolulu, HI 96813

ESTRELLA SEESE  
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT, AND TOURISM  
State Office Tower  
235 South Beretania Street, Room 501  
Honolulu, HI 96813

MARK DUDA  
PRESIDENT  
HAWAII SOLAR ENERGY ASSOCIATION  
P.O. Box 37070  
Honolulu, HI 96837

SCHLACK ITO LOCKWOOD PIPER & ELKIND  
DOUGLAS A. CODIGA, ESQ.  
Topa Financial Center  
745 Fort Street, Suite 1500  
Honolulu, HI 96813

## IRs for HECO

Please provide responses to the following information requests, providing all assumptions, work papers and calculations. Provide the spreadsheets in hard copy and in an electronic format.

1. At the technical workshop, the difference between marginal cost included in a provided table and that should be recovered through the volumetric charges in a SFV rate was discussed. Please provide the two marginal costs for each rate class and describe the difference.
2. Please discuss the service quality standards, such as the one mentioned in RAP's Revenue Decoupling- Standards and Criteria for the Minnesota Public Utilities Commission, dated June 30, 2008, which are intended to overcome an indifference to lost services that sales decoupling may create.
3. At the technical workshop, the participants discussed that the proposed decoupling adjustment would create a bias for the utility to overstate test year sales and for rate increase opponents to understate test year sales. Please discuss.
4. At the technical workshop, HECO or its consultants mentioned how sales decoupling does not shift risk between the utility and customers but rather lowers total risk. How is this risk reduction included in HECO's current rate case and its requested rate of return?
5. Dr. Lowry stated at the technical workshop that a RAM would not be needed with a straight fixed variable rate design.
  - a. Why would a RAM be needed with a revenue per customer decoupling mechanism that works arithmetically the same as SFV rate design according to NRRI's scoping paper?
  - b. Please discuss if the Commission should consider a SFV decoupling approach and avoid the need for a RAM?
  - c. If the Commission were to adopt a SFV rate design, please suggest a potential for a revenue neutral energy efficiency rebate as discussed in the scoping paper.
6. At Attachment 5A page 1 of 11 and Attachment 15A.2 page 1 of 11 of the PEG report, the RAM for HECO for 2010 and 2011 is \$ 6.1 million and \$5.4 million for O&M and \$10 million and \$2.4 million for growth in the rate base.
  - a. Is the total RAM for 2010 and 2011 estimated to be \$16.1 million and \$7.8 million?
  - b. What is the estimated increase for the 2012 rate case?

- c. Is this RAM in addition to revenues associated with the REIS?
7. At Attachment 5A page 1 of 11 of the PEG report, O&M expenses are projected to increase by \$5.2 million between 2009 and 2010 and by \$4.7 million between 2010 and 2011. The RAMs for 2010 and 2011 are \$6.1 million and \$5.4 million. Please provide step-by-step calculations on what the difference is between this portion of the RAM and O&M growth.
  8. HECO forecasts its trended rate base to increase by \$15.2 million/year plus significant projects. Please provide a detailed worksheet that produces the forecasted \$10 million rate base portion of the RAM in 2010 and the \$2.4 million in 2011.
  9. How is the proposal included in the utilities' REIS filing to increase rate base by 10% of the purchases made through the feed-in tariffs included in the RAM's rate base adjustment? Please quantify.
  10. Please discuss how the use of a future test year is consistent with the use of forecasted indexes in calculating a RAM.
  11. Sales decoupling, the RAM and REIS as proposed, each either reduce total risk or shift the risk of a utility not achieving the authorized rate of return to customers. Given the changes in risk associated with these revenue adjustment mechanisms please explain:
    - a. Why should the utility be allowed to retain any earnings in excess of the authorized rate of return rather than these earnings in excess of the authorized level being allocated to the benefit of customers? Please suggest a mechanism that could allocate these earnings to customers?
    - b. Please discuss the effect the reduction and shift in risk should have on the utilities' authorized rate of return.
  12. HECO has suggested using Global Insight's inflators for individual input factors and no productivity adjustment. If the indexes are based upon input prices, and productivity comes from using inputs more efficiently, why isn't a productivity adjustment reasonable? Are other utilities improving their productivity and by what measure?
  13. Please describe how Global Insight calculates the indexes that HECO is proposing to use to adjust O&M expenses.
  14. Please complete the attached spreadsheets.
  15. Please quantify the loss in estimated revenues associated with the proposed decoupling method to the estimated revenues generated through the proposed RAM (e.g., Attachment 5A page 1 of 11 of PEG's Revenue Decoupling for Hawaiian Electric Companies).

16. Other than the HCEI Agreement, why is a revenue per customer approach to sales decoupling inferior to a total revenue approach?
17. For each decoupling proposal listed at Tables 2 and 3 of PEG's decoupling report, please describe the associated RAM approved by the jurisdictional commission. Please differentiate revenue per customer mechanisms from other RAMs.
18. Please describe in detail the contents of your annual RAM filing, such that it will allow the Commission to review it within the two to three-month period prescribed in your proposal.
19. Please discuss the purpose of having separate Revenue Balancing Accounts for residential and all other customers.
20. Why is the RAM better considered within the decoupling docket than a rate case?
21. Why is approval of a RAM necessary at this time, other than its mention in the HCEI Agreement? Please provide a quantified response.
22. Why is the interest rate proposed in the RAM filing the authorized return rather than the cost of commercial paper as used in California? What is the effect on the projected RAM if the commercial paper rate is used?
23. Please compare the regulatory costs associated with the proposed RAM and rate cases every two years.

### **IRs for other Parties**

24. At the technical workshop, the participants discussed that the proposed decoupling adjustment would create a bias for the utility to overstate test year sales and for rate increase opponents to understate test year sales. Please discuss.
25. Sales decoupling, the RAM and REIS as proposed, each either reduce total risk or shift the risk of a utility not achieving the authorized rate of return to customers. Given the changes in risk associated with these revenue adjustment mechanisms please explain:
  - a. Why should the utility be allowed to retain any earnings in excess of the authorized rate of return rather than these earnings in excess of the authorized level being allocated to the benefit of customers? Please suggest a mechanism that could allocate these earnings to customers?
  - b. Please discuss the effect the reduction and shift in risk should have on the utilities' authorized rate of return.
26. Please compare the regulatory costs associated with the proposed RAM and rate cases every two years.

## INSTRUCTIONS FOR SPREADSHEETS

Please complete the attached spreadsheets for each utility (HECO used as an example throughout) as discussed below using ratemaking accounting conventions. All figures should be consistent with other investigations that may be currently before the Commission such as Docket 2008-0083 (HECO rate case), REIS proposal (Docket 2007-0416), AMI proposal (2008-0303) and this decoupling investigation. All dollars shall be in thousands. The respondent shall identify any inconsistencies among the assumptions used in any of the cases as part of this response. The respondent shall identify by column letter, row number or cell any underlying assumptions made in completing these spreadsheets and provide calculation methodologies not shown in the spreadsheet. A notes column and row is available to identify notes by number applicable to the row and column, respectively and attach the referenced notes. The respondents shall provide the spreadsheets in hard copy and electronically in Excel. Please provide any questions to these instructions or associated spreadsheets in writing to the Commission and the service list as soon as practical.

### SHEET 1

#### HEADERS

**Row 1:** Sheet number and utility name.

**Row 2:** Case type (with or without the RAM). For case with the RAM, assume the rate case scheduled proposed in this docket and annual RAM adjustments. For the Case without the RAM assume rate case every other year. NOTE: The provided template uses HECO as an example.

**Row 3:** Year. All years are calendar years unless otherwise stated by the respondent. If revenue or expense changes are introduced part way through the year, please explain the proration in a note to the cell or column.

#### REVENUE (ACTUAL AND PROJECTED)

**Row 4:** Net Revenues. Exclude revenues historically recovered through adjustment clauses and the associated amount in base rates such as fuel and purchased power as proposed at Attachment 5A of PEG's report. Exclude incremental changes to revenue associated with proposed revenue adjustments for REIS, AMI adjustment or decoupling. Include RAM revenues in the RAM case.

#### REVENUE CHANGE ANALYSIS (ALL CHANGES FROM PREVIOUS YEAR)

**Row 7:** Change in revenues caused by change in rates. This change does not include changes associated with average usage (row 8) or number of customers (row 9).

**Row 8:** Change in revenues caused by average usage changes. This excludes revenue changes caused by changes in customer count (row 9) or rates (row 7).

**Row 9:** Change in revenues caused by change in customer census. This excludes revenue changes associated with rates (row 7) and average usage (row 8).

**Row 10:** Total change in revenues from preceding year. This should equal the sum of rows 7, 8 and 9 and also equal the difference from the preceding year of row 4.

**Row 11:** Number of customers.

#### **EXPENSES (ACTUAL AND PROJECTED)**

**Row 13:** Total expenses including depreciation, interest and taxes.

#### **EXPENSE CHANGE ANALYSIS**

**Row 16:** Expense change associated with inflation.

**Row 17:** Expense changes associated with productivity.

**Row 18:** Expense changes associated with exogenous changes (e.g., unusual storm damage). Not applicable in forecasted periods, which are based upon normal events.

**Row 19:** Expense changes based upon changes in carrying costs of net "used and useful" plant additions including taxes but excluding return on equity.

**Row 20:** Total change in expenses and should equal the sum of rows 16 through 19 and also equal the difference from the preceding year of row 13.

#### **EARNINGS**

**Row 22:** Earnings. Row 4 minus row 13.

**Row 23:** Authorized earnings in the last rate case plus earnings authorized through RAM adjustments.

**Row 24:** Earnings surplus (+) or shortfall (-). Row 23 minus row 22.

#### **REIS**

**Row 26:** Revenue additions per the proposed REIS.

**Row 27:** Earnings including REIS revenues

**Row 28:** Earnings surplus (+) or shortfall (-) including REIS. Row 23 minus row 27.

**Row 31:** Revenue change per proposed total revenue decoupling approach, excluding RAM (already included).

## **DECOUPLING**

**Row 32:** Earnings using row 27 as a baseline and including proposed decoupling adjustment.

**Row 33:** Earnings surplus (+) or shortfall (-). Row 23 minus row 32.

**Row 35:** Revenue change per revenue/customer decoupling instead of the proposed total revenue decoupling method, excluding RAM.

**Row 36:** Earnings using row 27 as a baseline and including revenue/customer decoupling adjustment.

**Row 37:** Earnings surplus (+) or shortfall (-). Row 23 minus row 32.

**Row 39:** Revenue change using historical sales adjustment (e.g, change in revenues per recent trend for normalized sales), excluding RAM (already included). Please use a ten-year historical sales as the basis. This approach would change the base sales level used to calculate sales decoupling (not the RAM), based upon the historic sales trend.

**Row 40:** Earnings using row 27 as a baseline and including historic sales adjustment.

**Row 41:** Earnings surplus (+) or shortfall (-). Row 23 minus row 40.

## **SHEET 2**

The instructions for Sheet 1 are the same as Sheet 2 with the exception that there is no RAM adjustment assumed at rows 2, 7, and 23.

## **SHEET 3**

Please identify each project that would be completed but not covered by the REIS as proposed and provide the annual revenue requirement that would be covered by the proposed RAM. Please also provide at column H the requested three assumptions. This is not a substitute for full disclosure of all assumptions and calculations required for each of these worksheets.

[illegible]

[illegible]

## Notes

HECO - Carrying costs associated with completed projects not covered by REIS							
Project Description	2009	2010	2011	2012	2013	2014	Assumptions (life, depreciation method and return)